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**KEY
ANACON
MINES**

L I M I T E D

TWENTY-THIRD ANNUAL REPORT

F O R T H E Y E A R E N D E D D E C E M B E R 3 1 , 1 9 7 0

KEY ANACON MINES LIMITED

BOARD OF DIRECTORS

R. J. ISAACS Islington, Ontario
W. D. MACAULAY Saint John, New Brunswick
D. A. MACFARLANE Saint John, New Brunswick
L. McC. RITCHIE, Q.C. Saint John, New Brunswick
G. H. WILLIAMS Saint John, New Brunswick

OFFICERS

L. McC. RITCHIE, Q.C. President
W. D. MACAULAY Vice-President and Secretary
D. A. MACFARLANE Treasurer
MRS. M. JONES Assistant Secretary

REGISTRAR AND TRANSFER AGENT

GUARANTY TRUST COMPANY OF CANADA Toronto, Ontario

AUDITORS

THORNE, GUNN, HELLIWELL & CHRISTENSON,
Chartered Accountants Saint John, New Brunswick

OFFICES

HEAD OFFICE Suite 3706, Royal Trust Tower, Toronto Dominion
Centre, Toronto 111, Ontario
EXECUTIVE OFFICE Golden Ball Building,
Saint John, New Brunswick

KEY ANACON MINES LIMITED

HEAD OFFICE

Suite 3706, Royal Trust Tower, Toronto Dominion Centre,
Toronto 111, Ontario



NOTICE OF ANNUAL AND GENERAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the annual and general meeting of the shareholders of KEY ANACON MINES LIMITED (the "Company") will be held at the Head Office of the Company, Suite 3706, Royal Trust Tower, Toronto Dominion Centre, Toronto, Ontario, on Thursday, the 24th day of June, 1971, at the hour of 2:00 o'clock in the afternoon (Toronto time) for the following purposes:

1. To receive and consider the financial statements of the Company for the year ended December 31, 1970, together with the report of the auditors on the said financial statements, and the report of the directors;
2. To consider and, if thought fit, confirm By-law No. 13 of the Company enacted by the Directors on June 23, 1970, relating to the creation of an office of Chairman of the Board of Directors;
3. To consider and, if thought fit, confirm By-law No. 14 of the Company enacted by the Directors on February 5, 1971, respecting the execution of documents;
4. To consider and, if thought fit, confirm By-law No. 15 of the Company enacted by the Directors on February 5, 1971 respecting the indemnification of directors and officers;
5. To elect directors;
6. To appoint auditors and to authorize the directors to fix their remuneration;
7. To transact such other business as may properly come before the said meeting or any adjournment thereof.

DATED at Saint John, New Brunswick, this 19th day of May, 1971.

By Order of the Board,

WALLACE D. MACAULAY,

Secretary.

KEY ANACON MINES LIMITED

INFORMATION CIRCULAR

This circular is furnished in connection with the solicitation of proxies by or on behalf of the management of Key Anacon Mines Limited (hereinafter sometimes called the "Company") for use at the annual and general meeting of the shareholders of the Company to be held at the Head Office of the Company, Toronto, Ontario, on Thursday the 24th day of June, 1971, for the purposes set forth in the foregoing notice of meeting.

RIGHT OF REVOCATION

A shareholder executing the enclosed proxy has the power to revoke it at any time before it is exercised. In addition to revocation in any other manner permitted by law, a proxy may be revoked by instrument in writing deposited either at the head office of the Company at any time up to and including the last business day preceding the day of the meeting or any adjournment thereof at which the proxy is to be used or with the secretary of such meeting on the day of the meeting or any adjournment thereof, and upon either of such deposits the proxy is revoked.

PERSONS MAKING SOLICITATION AND METHOD THEREOF

The enclosed proxy is solicited by the management of the Company and the cost of solicitation will be borne by the Company. It is expected that the solicitation will be primarily by mail. Proxies may also be solicited personally by regular employees of the Company at nominal cost.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

Only shareholders of the Company of record at the time of the meeting will be entitled to vote at the meeting. Each share of the Company is entitled to one vote. The Company has only one class of shares. At May 19, 1971, the Company had outstanding 8,166,157 shares of 20c par value, all as fully paid.

On the basis of information supplied to the Company on request made by it to each of its directors and senior officers and derived from the list of shareholders of the Company, the following are the names of all persons and companies which beneficially own directly or indirectly, equity shares of the Company, the approximate number of shares beneficially owned, directly or indirectly, by each such person or company and the percentage of outstanding equity shares of the Company represented by the number of shares so owned.

<u>Name</u>	<u>Approximate Number of Shares Owned</u>	<u>Class of Shares Owned</u>	<u>Percentage of Outstanding Equity Shares Represented</u>
Barclays (Nassau) Nominees Company Limited	3,491,772	Common	42.75%
K. C. Irving Limited	1,041,385	Common	12.75%

ELECTION OF DIRECTORS

There are presently five (5) directors of the Company. The shareholders at the annual and general meeting will be asked to elect five (5) directors.

The following are the names of the five persons for whom it is intended that votes will be cast for their election as directors pursuant to the proxy which is hereby solicited: R. J. Isaacs, W. D. Macaulay, D. A. Macfarlane, L. McC. Ritchie, Q.C. and G. H. Williams.

The term of office for each director is from the date of the meeting at which he is elected until the annual meeting next following or until his successor is elected or appointed. In the event that prior to the annual meeting any vacancies occur in the slate of nominees submitted herewith, it is intended that discretionary authority shall be granted to vote the proxy for the election of any other person or persons as directors. The management is not presently aware that any of such nominees would be unwilling to serve as a director, if elected.

Mr. L. McC. Ritchie, Q.C., is the President of the Company, Mr. W. D. Macaulay is the Vice-President and Secretary and Mr. D. A. Macfarlane is the Treasurer of the Company at present.

INFORMATION CONCERNING NOMINEES AS DIRECTORS

<u>Name</u>	<u>Date became a Director</u>	<u>Number of shares beneficially owned</u>	<u>Principal occupation for last 5 years</u>
R. J. Isaacs	June 22, 1955	1	Professional Engineer, President of R. J. Isaacs Engineering Limited.
W. D. Macaulay	June 28, 1967	1	Partner, law firm of McKelvey, Macaulay, Machum & Fairweather, Saint John, New Brunswick.
D. A. Macfarlane	June 23, 1970	10	Executive in the employ of J. D. Irving Limited; formerly Treasurer of Brunswick Mining and Smelting Corporation Limited.
L. McC. Ritchie, Q.C.	June 23, 1970	6	Barrister; formerly member of the New Brunswick Court of Appeal.
G. H. Williams		1	Lawyer in the employ of Irving Oil Company, Limited.

REMUNERATION OF MANAGEMENT

During the year ended December 31, 1970, the aggregate direct remuneration paid or payable by the Company to the directors and senior officers of the Company was \$4,565. In addition, a fee for consulting services amounting to \$5,000 was paid to R. J. Isaacs Engineering Limited of which R. J. Isaacs is a director and officer and Messrs. McKelvey, Macaulay, Machum & Fairweather, in which firm Mr. W. D. Macaulay is a partner, were paid \$2,135 for legal services and disbursements.

APPOINTMENT OF AUDITORS

It is intended to vote the proxy to appoint the firm of Thorne, Gunn, Helliwell and Christenson, Chartered Accountants, Saint John, New Brunswick as the auditors of the Company.

**PARTICULARS OF MATTERS TO BE ACTED UPON AND
DISCRETIONARY AUTHORITY**

Management is not now aware that any matters will be submitted to the forthcoming annual and general meeting of shareholders other than the receipt and consideration of the financial statements, the confirmation of By-law No. 13 enacted by the Directors on June 23, 1970 relating to the creation of an office of Chairman of the Board of Directors, By-law No. 14 enacted by the Directors on February 5, 1971 respecting the execution of documents, By-law No. 15 enacted by the Directors on February 5, 1971 respecting the indemnification of directors and officers, the election of directors and the appointment of auditors, all as referred to in the foregoing notice of meeting. If any other matters not now known to management shall properly come before the meeting, including a vacancy or vacancies caused by one or more of the nominees for directors becoming unavailable for election, the accompanying proxy will be voted on such matters in accordance with the best judgment of the person or persons voting the proxy, and discretionary authority necessary in such event is conferred by any person giving the proxy to management.

MANNER OF VOTING PROXIES

The shares represented by proxies received by the management will be voted, and will be voted in accordance with the statements made above. It is intended that the accompanying instrument of proxy, if signed, dated and returned to the Company prior to the meeting and completed in the names of the persons herein named, will be voted in favour of the approval of the financial statements, in confirmation of By-laws No. 13, 14 and 15, in the election of the board of directors and in favour of the appointment of auditors aforesaid, all as set forth above.

The proxy form provided by management affords shareholders the opportunity to specify a choice with respect to the confirmation of By-laws No. 13, 14 and 15 referred to in the notice of meeting. Where the shareholder specifies a choice with respect to these matters, the shares represented by the proxy will be voted in accordance with the specification made. Where a choice is not so specified, it is the intention of management to vote the shares represented by the proxy in favour of confirmation of the said By-laws. Discretionary authority for so doing is understood to have been conferred upon management by the person giving the proxy.

THE PERSONS NAMED IN THE ACCOMPANYING INSTRUMENT OF PROXY ARE OFFICERS OF THE COMPANY. A SHAREHOLDER HAS THE RIGHT TO APPOINT ANOTHER PERSON OTHER THAN THOSE NAMED TO REPRESENT HIM AT THE MEETING AND IF USING THE ACCOMPANYING INSTRUMENT, SHOULD STRIKE OUT THE PRINTED NAMES AND INSERT THE NAME OF HIS NOMINEE IN THE SPACE PROVIDED THEREFOR. SUCH PROXY IF APPOINTED MUST BE ENTITLED ON HIS OWN BEHALF TO BE PRESENT AND VOTE AT THE MEETING. A SHAREHOLDER MAY SUBMIT ANY OTHER APPROPRIATE INSTRUMENT OF PROXY.

DATED this 19th day of May, 1971.

By Order of the Board of Directors,

WALLACE D. MACAULAY,
Secretary.

KEY ANACON MINES LIMITED

DIRECTORS' REPORT TO THE SHAREHOLDERS

Your Directors are pleased to submit herewith a report and the Company's financial statements for the year ended December 31, 1970.

During 1970, a completely new appraisal was made of the Company's mining property in the County of Gloucester, New Brunswick. Reports were obtained from independent professional engineers evaluating the ore reserves and estimating capital and operational costs which would likely occur if the property were to be put into production. These reports were considered by the Directors of your Company and in the light of current capital and operating costs and metal prices, it was concluded that the Company should not at the present time proceed further towards putting the mining property into production. Your Directors however are continuing to keep under review the economic factors which are pertinent to the development of the Company's mining property. Action would be taken should these conditions suggest that it would be profitable.

All mining properties have been maintained in good standing. There has been no change in the Company's ore reserves.

The Company owns 595,900 common shares of Brunswick Mining and Smelting Corporation Limited. The intention of the Directors is to continue to hold these shares. The 1970 annual report of Brunswick Mining and Smelting Corporation Limited states that at year end its ore reserves totalled 96.7 million tons.

Your Directors are concerned about what federal tax legislation will be introduced by the Minister of Finance in the current year. It is our sincere hope that certain of the principles set out in the white paper originally issued by the Government will not be implemented but will be replaced by provisions more favorable to mining companies.

During the year, Mr. L. F. Daley, Q.C., resigned as President and as a Director of the Company and Mr. L. McC. Ritchie, Q.C., was appointed to succeed him as President. Mr. W. D. Macaulay, the Secretary and a Director of the Company, was appointed to the post of Vice-President. Your Directors wish to express their appreciation to Mr. Daley for his conscientious efforts in conducting the Company's affairs. Mr. George H. Williams of Saint John, New Brunswick has been appointed a Director to fill the vacancy on the Board.

On Behalf of the Board

L. McC. RITCHIE, President.

April 28, 1971

Thorne,
Gunn,
Helliwell
& Christenson

CHARTERED ACCOUNTANTS

Suite 1400, Brunswick House
Saint John, N. B.

AUDITORS' REPORT

To the Shareholders of
Key Anacon Mines Limited

We have examined the balance sheet of Key Anacon Mines Limited as at December 31, 1970 and the statements of retained earnings, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1970 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE, GUNN, HELLIWELL & CHRISTENSON,
Chartered Accountants.

Saint John, N. B.
February 2, 1971

KEY ANACON MINES LIMITED

(Incorporated under the laws of Ontario)

BALANCE SHEET — DECEMBER 31, 1970
(with comparative figures at December 31, 1969)

ASSETS

Current Assets	1970	1969
Cash	\$ 13,199	\$ 22
Accounts receivable	158	869
Prepaid expenses	1,451	1,402
	<u>14,808</u>	<u>2,293</u>
Investment in Shares of Brunswick Mining and Smelting Corporation Limited		
595,900 Common shares at book value - quoted market value \$2,632,960 (\$5,243,920 in 1969), (pledged as security for loan and note)	2,086,262	2,086,262
	<u>2,086,262</u>	<u>2,086,262</u>
Fixed Assets and Deferred Expenditures		
Mining properties	82,670	82,670
Land, buildings, plant and equipment	466,895	466,706
Deferred development and administrative expenditures	4,404,641	4,270,615
Stores and supplies, at cost	38,279	38,279
	<u>4,992,485</u>	<u>4,858,270</u>
	<u>\$ 7,093,555</u>	<u>\$ 6,946,825</u>

LIABILITIES

Current Liabilities		
Accounts payable and accrued liabilities	\$ 13,037	\$ 66,307
	<u>13,037</u>	<u>66,307</u>
Other Liabilities (note 1)		
Bank loan	575,000	575,000
Promissory note	200,000	—
	<u>775,000</u>	<u>575,000</u>

SHAREHOLDERS' EQUITY

Capital Stock (note 1)		
Authorized		
10,000,000 Shares, par value 20 cents each		
Issued		
8,166,157 Shares	1,633,231	1,633,231
Contributed Surplus	4,462,308	4,462,308
Retained Earnings	209,979	209,979
	<u>6,305,518</u>	<u>6,305,518</u>
	<u>\$ 7,093,555</u>	<u>\$ 6,946,825</u>

Approved by the Board

L. McC. RITCHIE, Director.

D. A. MACFARLANE, Director.

KEY ANACON MINES LIMITED

STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1970

(with comparative figures for 1969)

	1970	1969
Balance at beginning of year	\$ 209,979	\$ 2,235,393
Write off on disposal of mining claims, mining equipment and deferred mine development	—	1,856,238
Investments written down	—	145,114
Loss on disposal of mine equipment and building	—	24,062
		<u>2,025,414</u>
Balance at End of Year	<u>\$ 209,979</u>	<u>\$ 209,979</u>

STATEMENT OF CONTRIBUTED SURPLUS

YEAR ENDED DECEMBER 31, 1970

(with comparative figures for 1969)

	1970	1969
Balance at beginning of year	\$ 4,462,308	\$ 3,306,795
Premium on shares issued during the year	—	1,155,513
Balance at End of Year	<u>\$ 4,462,308</u>	<u>\$ 4,462,308</u>

STATEMENT OF DEFERRED DEVELOPMENT AND

ADMINISTRATIVE EXPENDITURES

YEAR ENDED DECEMBER 31, 1970

	Balance at beginning of year	Additions	Balance at end of year
Development expenses	\$ 2,127,631	\$ 12,026	\$ 2,139,657
Administrative expenses	2,142,982	122,000	2,264,982
Shares in other mining companies at nominal value ..	2		2
	<u>\$ 4,270,615</u>	<u>\$ 134,026</u>	<u>\$ 4,404,641</u>

KEY ANACON MINES LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1970

(with comparative figures for 1969)

Source of Funds	1970	1969
Promissory note	\$ 200,000	—
Capital stock issued		
Cash	—	\$ 979,938
Debenture interest satisfied by issue of shares	—	4,039
Disposal of equipment	—	8,654
Proceeds, easement right of way	—	870
	<u>200,000</u>	<u>993,501</u>
 Application of Funds		
Development and administrative expenditures	134,026	146,885
Additions to fixed assets	189	—
Reduction of bank loan	—	496,289
	<u>134,215</u>	<u>643,174</u>
Decrease in Working Capital Deficiency	65,785	350,327
Working Capital Deficiency at Beginning of Year	64,014	414,341
Working Capital (Deficiency) at End of Year	<u>\$ 1,771</u>	<u>\$ (64,014)</u>

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1970

1. OTHER LIABILITIES

The bank loan, payable on demand, is secured by a pledge of shares of Brunswick Mining and Smelting Corporation Limited.

The promissory note bears interest at rate of 8¾% and is due January 21, 1972. It is secured by a pledge of shares of Brunswick Mining and Smelting Corporation Limited, subject to the existing pledge of these shares to the bank.

The promissory note is accompanied by an option, which expires January 21, 1972, to purchase shares in the capital stock of the company up to \$200,000. The company has allocated a maximum of 444,445 shares of unissued stock for the possible exercise of the option.

2. OTHER STATUTORY INFORMATION

The remuneration of directors and senior officers (as defined by The Corporations Act, which includes the five highest paid employees) amounted to \$4,565.

In addition to the foregoing, Messrs. McKelvey, Macaulay, Machum and Fairweather, in which firm a director, Mr. W. D. Macaulay is a partner, were paid \$2,135 for legal services.

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**KEY ANACON MINES
LIMITED**

**INTERIM REPORT
TO SHAREHOLDERS**

Six months ended June 30, 1970

KEY ANACON MINES LIMITED

P. O. Box 937, Saint John, N. B.

To the Shareholders:

We submit herewith the unaudited Statement of Source and Use of Funds of the Company for the six months ended June 30, 1970 with comparative figures for the six months ended June 30, 1969.

STATEMENT OF SOURCE AND USE OF FUNDS FOR THE SIX MONTHS ENDED JUNE 30, 1970

SOURCE OF FUNDS:

	1970	1969
Proceeds from promissory note	\$ 200,000	\$ —
Capital stock issued for cash and in payment of debentures and accrued interest	—	1,713,008
Accrued interest on debentures	—	4,039
	<u>200,000</u>	<u>1,717,047</u>

USE OF FUNDS:

Development and administrative expenses	69,449	83,607
Reduction of bank loans	—	496,289
Redemption of debentures and accrued interest	—	733,069
Purchase of equipment	190	570
Reorganization costs	—	910
	<u>69,639</u>	<u>1,314,445</u>
Increase in working capital	130,361	402,602
Working capital deficiency - beginning of period	(64,014)	(414,341)
Working capital - end of period (excluding in 1970 the liability for the outstanding promissory note)	<u>\$ 66,347</u>	<u>\$ (11,739)</u>

The company continues to maintain its holding of 595,900 common shares of Brunswick Mining and Smelting Corporation Limited whose outlook, providing base metal prices remain firm, continues to improve. With respect to the company's New Brunswick property, further investigation is being done to examine the possibility of putting the property into production. On July 24, 1970, the president L. F. Daley, Esquire, Q.C. resigned as president and as a director due to the pressure of other business affairs.

August 3, 1970

L. McC. RITCHIE, Q.C., Vice-President